Annual Investment Report

State & County Employees' Retirement Systems
– Defined Contribution Benefit
– Cash Balance Benefit; and

Deferred Compensation Plan

Year Ending December 31, 2005

Nebraska Public Employees Retirement Systems

IMPORTANT INFORMATION

*For **administrative questions**, contact:*

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Securities offered exclusively through Raymond James Financial Services, Inc. Member NASD/SIPC

The State of Nebraska has a contract with Sterling Financial Advisors, LLC, to answer your retirement questions. Sterling can provide information about the investment options, talk about asset allocation or just "hold your hand" during difficult markets. Sterling is paid to help you make good choices, not to push products.

*For **account information**, to request a **statement of account**, or to make **investment election changes** or **investment tranfers**:*

- ♦ Access NPERS' automated voice response system at **800-449-2696** or **402-467-6925**
- ♦ Enter changes via NPERS' web site at **www.npers.ne.gov,** which links:
  - until 6/30/06 through Ameritas' Pension Access On-Line, and
  - after 7/1/06 through Union Bank & Trust Company;

Complete a change form, available through your employer or downloaded from NPERS' web site, and submit to NPERS:
  - State and County Plans - Investment Election Form #NPERS2500
  - Deferred Compensation Plan - Change Form #NPERS8400, or
- ♦ Call NPERS at **800-245-5712** for personal assistance

*To use the **voice response system** or NPERS' **web site**, you must know:*

- ♦ Your Social Security number
- ♦ Your Plan number:
  - State Plan **#002002**
  - Deferred Compensation Plan #**002000**
  - County Plan **- each county has a number**
- ♦ Your Personal Identification Number (PIN). If you do not know your PIN or did not assign yourself one when you enrolled in the plan, you must complete a form, available from your employer or NPERS' web site, and submit to NPERS:
  - State and County Plans - PIN Request Form #NPERS1360

*For a **tutorial** on the **investment funds**:*

- ♦ visit NPERS' web site at **www.npers.ne.gov** to view a video explaining the investment funds available for the Defined Contribution benefit and the State of Nebraska Deferred Compensation Plan.

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April 2006

To: State & County Plan Members

From: Anna J. Sullivan, Director
Nebraska Public Employees Retirement Systems

We are presenting to you our Annual Investment Report which is designed to provide each of you an update on the State, County and Deferred Compensation Plan (DCP) assets and investment details, but also to give you a few reminders on good investment practices and other tidbits to assist you.

The financial markets in 2005 were a bit volatile which did impact the overall return for the Cash Balance portfolio as well as the returns on several of the Defined Contribution and DCP investment funds. The Nebraska Investment Council reports a return of 6.7% for the year ending December 31, 2005, for the Cash Balance assets. The investment returns in the Defined Contribution portions of the State and County Plans and the voluntary DCP program vary by member. The return depends on the individual funds selected by the member and the percentage of contributions allocated to those funds.

We continue to have great confidence in the investment work of the Nebraska Investment Council as they oversee the hiring of fund managers for our pension assets. As in any investment there are risks and invariably market ups and downs.

This year a new investment fund has been added to the Defined Contribution and Deferred Compensation Plans. The new **Investor Select Fund** is invested as another pre-mix fund, but with an allocation similar to the Cash Balance plan portfolio. (See fund description in this report for details.) The key with this fund is to offer a select allocation of assets which are then rebalanced on a regular basis.

As we strive to improve our communication with you and to offer publications to assist you with understanding your pension plans, we know you at times need to talk to someone about your personal situation. We recommend you continue to utilize the service of Sterling Financial Advisors and we urge you to attend one of our retirement planning seminars available in the fall of each year. If your agency, county or department is interested in having an NPERS representative meet with you, please contact our office.

Have a great year!

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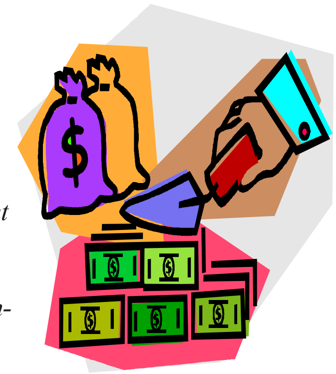
Investment Basics for Members of the State, County and Deferred Compensation Plans

Construct a Sound Base for Retirement

by Mary Jochim
Sterling Financial Advisors



*(**Sterling Financial Advisors**, a registered investment advisor under contract with the Nebraska Public Employees Retirement Systems (NPERS) to provide investment education services, can give you the pros and cons of various investment options, market outlooks and some guidelines to consider. While no one can advise you what you should do, it can be very helpful discussing your options with professionals. You can reach Sterling at **877-970-9300** or in Omaha at **402-970-9300**.)*

Fables, Legends and Fiction About Retirement

It is an unfortunate fact that many Americans spend less time planning for their retirement than planning for their vacations. All it takes is a little time, some thoughtfulness – and a clear understanding of the fables, legends and fiction that hinder us from constructing a sound retirement. After all, your retirement should be the best vacation of your life. Here are some common misconceptions:

 # 1 I'm too young to worry about retirement... News Flash! You won't stay young. You're never too young to make plans. You may also think you are going to be just a short-timer in state or county government, so why bother. Others have thought that too, only to surprise themselves some 20 or 30 years later that they turned out to be a "lifer" in government. Even if you leave government service, it is imperative you maximize your retirement plan each and every year, no matter where you work. Pay attention. Ask questions. Read the Retirement Roundup newsletter. Besides your mandatory State or County Retirement Plan (either the Defined Contribution benefit or the Cash Balance benefit), you also have a *voluntary* §457 Deferred Compensation Plan where you can put aside extra dollars on a tax deferred basis. The sooner you begin saving for retirement, and taking advantage of offerings like the Deferred Compensation Plan, the less you'll have to put aside. For example, if you want to have a $200,000 additional nest egg by age 65, you'll only have to save about $26 a week if you start at age 35. But if you wait until you're 55 to start, you'd have to put aside $233 every week. You can do this the easy way by *starting now*, no matter what your age. (Both cases assume your money is invested earning a hypothetical 9% return. This example is for illustrative purposes only and is not intended to reflect the actual performance of any security. Investing involves risk and you may incur a profit or a loss.)

 # 1.5 It's too late for me. All my time to save is gone... If that were true, you wouldn't be reading this.

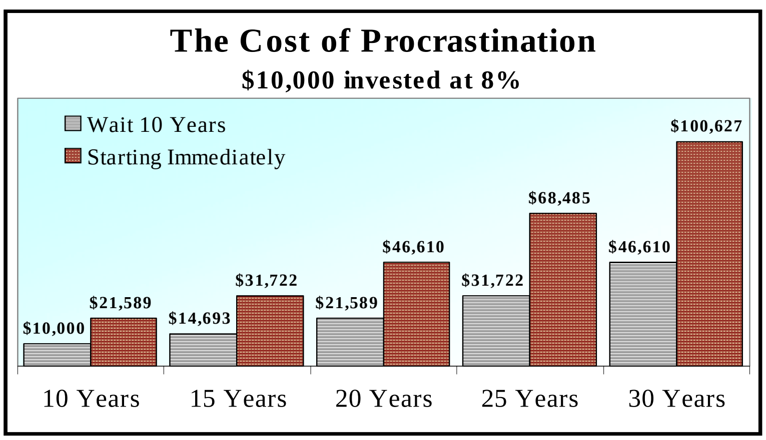
 # 2 I won't need much to live on... Wow. Beans and wieners. That sounds like fun! Many experts estimate that, on average, to *maintain your standard of living* in retirement, you'll need about 80% of your pre-retirement income, and 100% if you're planning extra activities such as travel. That income has to continue to grow enough in an attempt to keep up with inflation. Don't just read this paragraph - do the math. How much money will you need? *The Ballpark E$timate®* at **www.choosetosave.org** is an excellent worksheet for doing just that. Choose to Save (a program of the Employee Benefit Research Institute) also offers an impressive array of estimators on budgeting, paycheck planning, home buying, life insurance, Roth IRAs, stocks and mutual funds, to name a few. Many other useful calculators can be found on the web. The search is up to you.

 # 3 **My kids will take care of me...** Good luck! This is not a strategy for most reasonably sane people. Most children might want to lend their aging parents a hand, but many can't afford to. About the time you're ready to retire, your children could be paying their children's college tuition – and saving for their own retirement. You'd be wise, therefore, to leave the kids out of your plans. They will appreciate it.

 # 4 **Social Security will take care of me...** What world have you been living in? It's unwise to expect Social Security to cover all your costs. Depending on your income level, you may find that Social Security might replace as much as 50% to as little as 20% or less of your current income. It is not enough. Take a moment and visit the Social Security web site **www.ssa.gov** and find out how you can get a personalized estimate.

 # 4.5 **The government will solve the Social Security crisis before I need the money...** That's a pleasant fiction. This is a great country! However, 1 + 1 will never equal 13. That's where we are headed. Two workers paying in while 13 will be taking out. That's pretty ugly. Those under a certain age can well count on a combination of payroll tax increases, higher retirement age and benefit cuts.

 # 5 **I can't afford to put money away where I can't touch it for many years...** The truth is, you can't afford *not* to participate in tax deferred retirement plans! Thank goodness your State or County Retirement Plan is mandatory or some would not even contribute to a plan where there was a generous employer match, which amounts to "free money," if it meant less money in their pocket. Contributions to the voluntary Deferred Compensation Plan, as well as various IRAs, ROTHs and the like can reduce your current tax burden or provide tax-free withdrawals and significantly improve your nest egg. In addition, taxes are also deferred on earnings, so retirement savings have the potential to grow faster than others do. Sign up now!



What else should you do?
A comfortable retirement requires looking the facts squarely in the face – yourself in the mirror – and creating a realistic plan that works for you. Take advantage of the many educational resources available. Attend a Personal Planning Seminar offered by the Nebraska Public Employees Retirement System (NPERS) if you are under age 50. Or attend a Pretirement Seminar if you are age 50 or over. Of course, this brief article is no substitute for a careful analysis of your personal circumstances. Before implementing any significant tax or financial planning strategy, contact your financial advisor, attorney or tax advisor as appropriate.

Common Investment Principles to Live By

Perseverance. Patience. Persistence. While these words were once limited to the battle cries for military organizations and football teams across the country, they were recently the mantra for investors ravaged by the latest bear market. But that particular bear market mauled so many money maxims that talking the talk is certainly much easier than walking the walk. However, there are common principles no matter what maxim you choose.

There are two times when people forget their investment principles - at the top of the market and the bottom of the market. Keep in mind, there have been 30 bear markets in the last 100 years and each one was followed by a recovery. If you are an investor concerned with protecting your portfolio in the future from more stock market volatility, below are some basic principles that have stood the test of time.

- **Formalize your goals.** As with the achievement of any goal, commitment to it is half the battle. Make your dedication official by writing your goals down, both short- and long-term. You can then check your progress by updating them annually. If not, how else will you know if you're close to attaining them? Remember, if you don't know where you are going, any road will get you there.

- **Stay balanced.** Build a well-diversified portfolio using different asset classes, like stocks, bonds, money markets, etc., and investments that are designed to complement each other and may not move in the same direction at the same time. Over all, your investment portfolios, savings, retirement and taxable investments should be comprised of cash equivalents, bonds, equities, real estate and tangibles. If you are in the Defined Contribution benefit or the Deferred Compensation Plan and are not comfortable making such decisions, take a good look at some of the pre-mixed funds offered as options. These diversified "pre-mixed" funds do most of the work for you including rebalancing as necessary to keep your asset allocation on target.

- **Reassess your risk tolerance.** Amidst market turmoil, you may realize you don't quite have the stomach for volatility you originally thought. If that's the case, move incrementally over time toward a more appropriate investment mix. Again, this is where a well-diversified portfolio can help. It will offset instability and put you on the path toward achieving your financial goals.

- **Use dollar cost averaging.** Dollar cost averaging means investing the same amount on a regular basis, done over time throughout various market cycles by buying more when the price is low and less when the price is high. The higher the unit price, the less units your dollar buys. The lower the unit price, the more units your dollar buys.

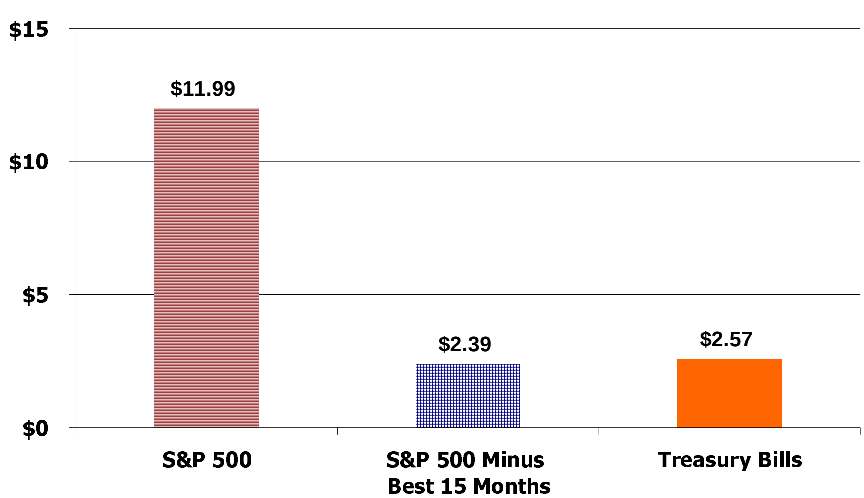
Price of Shares		$2,000 Each Month Buys	$10,000 Lump Sum Buys
Month 1	$1.80	1,111 shares	5,556 shares
Month 2	$1.20	1,667 shares	——
Month 3	$1.85	1,081 shares	——
Month 4	$1.35	1,481 shares	——
Month 5	$1.90	1,053 shares	——
		6,393 shares	**5,556 shares**

- The "magic" of dollar cost averaging is that you can end up with an *average* purchase price that is *less than* the average price over the time period. Over the five month period shown above, the price of shares of stock averaged $1.62 a share. However, the average purchase price was $1.56 a share ($10,000/6,393). By investing each month, more shares were bought when the price was low, fewer when the price was high, resulting in more shares for your money!!
  Dollar cost averaging does not insure an investor of a profit.

- **Prepare for the long haul.** There are few guarantees in life, but one thing you can be sure of is market volatility. That's why it's important for you to ignore the everyday ups and downs of the market and stay focused on the long term. Don't try to time the market. History shows this is one of the worst things an investor can do because they usually don't do it well. You have to be right twice in timing the market, once in knowing when to get out and then, twice knowing when to get back in. Knee-jerk reactions could make things even worse. Remember time is on the side of the prudent, well-diversified investor. It's not timing the market that matters; it is time in the market. Peter Lynch, a well-respected investment professional, has stated "When it's 15° below in Minnesota they don't panic - they just wait until spring." Substitute "Nebraska" for "Minnesota" and you get the point. That's great advice for a bear market. The bear will go back into hibernation.

Dangers of Market Timing

Hypothetical Value of $1 Invested from Year-End 1984-2004



Let's Talk About Asset Allocation

It's not enough just to invest. You need to choose the right mix of investments to meet your goals. Allocating your assets means deciding how to spread your money among the numerous options provided. This applies to the State and County Retirement Plans, the state's Deferred Compensation Plan, or any County's deferred compensation plan, as well as your other outside investments.

For both your member contributions and your employer matching contributions in the Defined Contribution benefit of the State or County Plan, you have 12 different fund choices which are selected, monitored, and terminated, when necessary, by the Nebraska Investment Council. State employees participating in the voluntary Deferred Compensation Plan (in which every one should be!) have those identical 12 choices. Counties have their own deferred compensation investment choices.

These are clichés, but asset allocation is all about "not putting all your eggs in one basket," "hedging your bets," "playing the field" and so on. Diversify. Diversify. Diversify. Approximately 95% of your return will come from that one decision. (P.S. This gets more interesting...)

To Diversify Using *Stock Investments*, You Have the Following Choices:

- **Large Company Value Stock Index Fund** – generally slower growing, often less volatile, hedge against inflation

- **Large Company Growth Stock Index Fund** – faster growing, hedge against inflation, but more volatile

- **Small Company Stock Fund** – fastest growing, more "cutting edge," hedge against inflation but much more volatile

- **S&P 500 Stock Index Fund** – 500 largest companies, mix of growth and value, hedge against inflation, and often less volatile

- **International Stock Fund –** divergent returns from U.S. Markets, hedge against inflation with greater volatility

For Investing in *Fixed Income*, You Have the Following Choices:

- **Money Market Fund** – Lower rates of return (follows interest rate changes more quickly with no negative price volatility)

- **Stable Value Fund** – Higher interest rate and no volatility (return follows interest rate change gradually with no negative market volatility)

- **Bond Market Index Fund** – Variable returns both positive and negative, returns that balance stock returns with higher/lower returns sometimes in the opposite direction. (Return varies with moves in interest rate changes quickly and is more volatile.)

You will find additional information later in this booklet on each of the options listed above. More information about the terms used is available in the glossary. Please take time to study it.

Pre-Mixed Funds

For your member contributions in the Defined Contribution benefit as well as your employer matching contributions you can choose among the eight choices on pages 11 and/or the following "pre-mixed" funds. You can think of these pre-mixed funds as a cake from a bakery or a car just off the assembly line. You can select the flavor or color but in either case, the work has been done for you and you are good to go.

The pre-mixed funds use a combination of stock and fixed income funds. For example, in the Employer Moderate Fund, 50% will be invested in the fixed income funds and 50% in the funds with stock investments. By selecting among the pre-mixed choices, you have made an asset allocation. Within that asset allocation, each fund itself is diversified! Congratulations!

Funds	Bonds/Stocks
Conservative Pre-Mixed Fund	75% / 25%
Moderate Pre-Mixed Fund	50% / 50%
Aggressive Pre-Mixed Fund	25% / 75%

A New Pre-Mixed Fund

The Investor Select Fund was authorized by the 2005 Legislature and became your 12th investment choice in September. It is a pre-mixed fund invested with an asset allocation and investment strategy substantially similar to that of the Defined Benefit Plans (for School, Judges and State Patrol employees) also administered by NPERS. The allocation is a combination of actively managed portfolios and passive index funds.

The Nebraska Investment Council oversees the investing of the combined monies in the Defined Benefit Plans for School, Judges and State Patrol members and, on average, realizes about a 10.5% investment return over the long-term. The Investor Select Fund was created to give Defined Contribution benefit and Deferred Compensation Plan participants the advantage of the Investment Council's collective professional investment knowledge.

Fund	Bonds/Stocks/Real Estate
Investor Select Fund	30% / 65% / 5%

The Bottom Line

The Pre-mixed Funds *automatically* adjust to changing market conditions. Very powerful! Here is an example. You selected the Aggressive Pre-Mixed Fund because you felt a larger exposure to stocks was right for you (75%) but you still wanted some fixed income investments (25%). Time goes by and the stock market has been very rewarding. So much so that your account now has 83% stocks and only 17% fixed income. That's out of balance. The fund will sell some of the stocks (thus selling high) and invest in more fixed income (buying low).

Think of a bad stock market. You are down to 60% stock, 40% in fixed income. To re-balance, more stock will be purchased (thus buying low) and fixed income sold to return the pre-mix to 75% stock and 25% fixed income.

All without having to think about it. It makes buying low and selling high a breeze.

Risk Related to Return

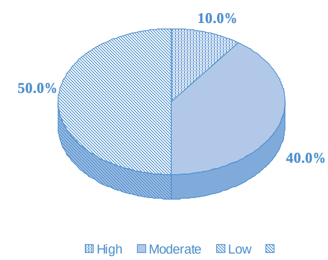
- **Low Risk Investing** (Conservative Investment Model) has less change up and down in value, less risk of capital losses during any given time period, more risk of under-performance over time, more loss of purchasing power over time, and historically lower rates of return.

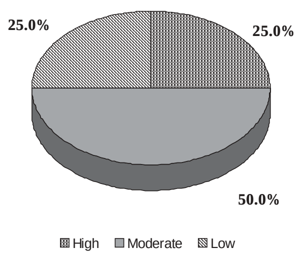
- **Moderate Risk Investing** (Moderate Investing Model) has more change up and down in value, more risk of capital losses during difficult markets periods, less risk of under-performance over time, less risk of loss of purchasing power, and historically higher rates of return.

- **High Risk Investing** (Aggressive Investing Model) has frequent changes up and down in value, some changes in value can be large, more risk of capital losses over shorter periods of time, less risk of under-performance over time, less risk of loss of purchasing power over time, and historically the highest rates of return over time.

Conservative Investing Model

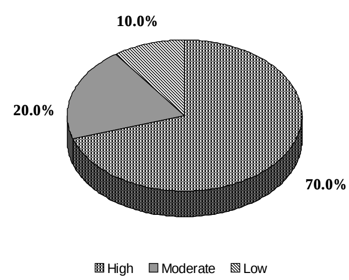
- *Emphasis:* Safety and Stability
- *Retirement Horizon:* 5-10 years
- *Goal:* Preservation of principal with competitive returns
- *Risk:* Low





Moderate Investing Model

- *Emphasis:* More stability in an "up and down" market
- *Retirement Horizon:* 10-20 years
- *Goal:* Growth and current income
- *Risk:* Moderate



Aggressive Investing Model

- *Emphasis:* Build assets and protect against inflation
- *Retirement Horizon:* 20+ years
- *Goal:* Capital appreciation
- *Risk:* High

Examples of:

Low Risk	Moderate Risk	High Risk
Money Market Fund	Bond Market Index Fund	S&P Stock Index Fund
Stable Value Fund	Moderate Premixed Fund	Large Company Growth Fund
Conservative Premixed Fund	Investor Select Fund	Large Company Value Fund
		Aggressive Premixed Fund
		International Stock Fund
		Small Company Stock Fund

With all this concern about risk, this helps to put things in perspective:

What Are The Odds...

...that you'll win the state lottery?	1 in 4 million
...that you'll be killed by a plane falling on you?	1 in 300,000
...that you'll one day receive a new identity under the U.S. Witness Security Program?	1 in 20,000
...that you'll be killed in a plane crash?	1 in 4,000
...that you'll crush a finger with a hammer this year?	1 in 3,000
...that you have a fish or shellfish allergy?	1 in 1,000
...that the airlines will lose your luggage?	1 in 186
...that you'll be audited by the IRS?	1 in 100
...that you'll be killed in a car accident?	1 in 42
...that your next meal will be from McDonald's?	1 in 8
...that it's just tap water when you buy bottled water?	1 in 4
...that if you call the IRS for tax assistance, no one will answer your call?	1 in 3
...that you'll experience back pain sometime during the next 6 weeks?	1 in 2
...that nuclear weapons are based in your state?	1 in 2
...THAT AN INVESTMENT IN STOCKS WILL MAKE MONEY IN ANY GIVEN YEAR?	**7 in 10**
...that you'll regain weight you lost by dieting?	9 in 10

More on Diversification

By diversifying — choosing a wide variety of investments — you minimize the volatility of your overall account. While it will prevent you from being 100% right, more importantly it prevents you from being 100% wrong. Using the eight options, you can tailor the investment mix to what best suits your needs. All you need to do is study the information. Ask questions. Think about your comfort level with risk, both market risk and inflation, years to retirement and other investments, just to name a few considerations.

First Investor

Invests $10,000 once in a lump sum, invested for 25 years and earns an 8% fixed rate of return

Amount Invested	Rate of Return	Ending Value
$10,000	8%	$68,500

Total Accumulation: $68,500

Second Investor

Invests $2,000 each at 5 different times in 5 different investments, invested for 25 years and earns variable rates of return

Amount Invested	Rate of Return	Ending Value	
$2,000	-100%	$0	(Total Loss)
$2,000	0%	$2,000	
$2,000	5%	$6,800	
$2,000	10%	$21,700	
$2,000	15%	$65,800	
	*		

Total Accumulation: $96,300

* Average Annual return

The Second Investor has $27,800 more in spite of losing 100% of one investment and receiving a 0% return on the second investment.

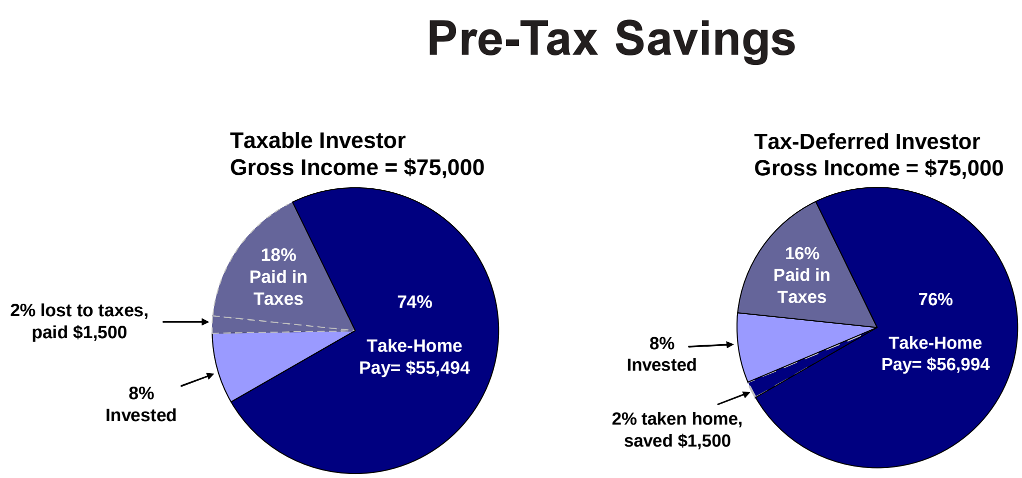
Easy Does It!

Would you like to make all that a little easier? Check out the "pre-mixed" funds on page 12. Most of the work will have been done for you. (That's my idea of a good life.) By selecting one of the pre-mixed options, you have succeeded in that adage to "diversify, diversify, diversify." Plus you'll gain one additional advantage. But you'll have to read further to find out what.

You Are In Control

Some things are out of *our* control, or just "out of control." When it comes to retirement, you control the three most important factors that determine how much you'll have when you retire.

1. **Start saving. Start saving more.** You control the amount of money you set aside each month. The State or County Retirement Plan is a start. But only a start. You'll need more than Social Security and your State or County retirement benefit check. The money has to come out of your pocket. ***Start saving! Start saving more!*** Check out the state's Deferred Compensation Plan or your County's deferred compensation plan. It is a fantastic way to save on a pre-tax basis. Use IRAs, Roths...just get going! As mentioned on page 7 of this report, **www.choosetosave.org** offers comprehensive, easy to understand information about how to save money. And the charts below demonstrate the power of pre-tax savings.



2. **You control when you retire**. The later your retirement is, the easier it will be to reach your goals.

3. **Your asset allocation**. It is the key decision you make.

Whether you select your own asset allocation or take advantage of the selection made for you in a pre-mixed fund, get going!

How Large Should My Nest Egg Be?

Ever wonder how much money you should have in your account to be "reasonably" prepared for retirement? The chart below may give you a general idea. REMEMBER, no two people are alike and no two retirements will be alike! It is a very big guessing game. Will you be married? Will you remarry a younger spouse? Will you be healthy enough to live independently? How about travel? In what state will you retire? Will you still have kids in college? Will you work at another job? Did you save extra dollars in the voluntary Deferred Compensation Plan to provide a financial cushion? These are just a few of the questions that will have a profound impact on your financial life.

What will the economy be like during your retirement? High inflation? Low Inflation? In what tax bracket will you be? There are a tremendous number of assumptions and unanswered questions that go into each retirement needs calculation. Oh, we've left out the two big questions. How fast are you going to spend the money? And when will you die? Because there are so many variables affecting the final outcome, it is completely impossible to calculate a retirement nest egg amount that will be exactly right. The chart below is a "ballpark" attempt to give you an idea of how much money you should have in your account at age 65 to maintain your same standard of living.

Here are the assumptions:

1. You retire at age 65
2. You are single
3. Inflation averages 4% annually
4. Social Security benefits are at current estimates
5. Social Security cost adjustments are 1.6% annually
6. Your retirement plan account balances earn 5% annually

Your Ending	**Life Expectancy**			
Salary	**Age 85**	**Age 90**	**Age 95**	**Age 100**
$20,000	$234,000	$292,000	$349,000	$406,000
$30,000	$402,000	$496,000	$588,000	$679,000
$40,000	$534,000	$659,000	$782,000	$903,000
$50,000	$673,000	$830,000	$985,000	$1,137,000

How should you read this chart? Assuming you were earning about $40,000 your last years of employment and you expected to live to age 90, you would want at least $659,000 in your retirement accounts when you began retirement. This amount will gradually draw down your balances using both your principal and interest. If you were to die before your assumed life expectancy, there would be funds left in your account. If you lived longer, you would have depleted your account and would be dependent on social security and other sources of income.

If you'd like to talk to someone about your situation, NPERS has a contract with **Sterling Financial Advisors**, a registered investment advisor, to do just that. Sterling Financial can give you some of the pros and cons of various investment options, market outlooks and some guidelines to consider. While no one can advise you what you should do, it can be very helpful discussing your options with professionals. You can reach Sterling at **877-970-9300** or in Omaha at **402-970-9300**.

Investment Fund Details
for the
Defined Contribution Benefit
and the
Deferred Compensation Plan

Defined Contribution Benefit

In December 2002, State and County Plan members were given the option to remain in the Defined Contribution benefit or transfer to the Cash Balance benefit implemented in January 2003. About two-thirds of State and County Plan members elected to remain in the Defined Contribution benefit. New membership is no longer allowed and will gradually decline through retirements.

Through December 31, 2006, State Plan members contribute 4.33% of compensation each payroll period until reaching $864 in contributions ($19,954 in salary) during the plan year. Contributions on salary in excess of $19,954 during the year are made at the rate of 4.8%. *Effective January 1, 2007,* the contribution rate will be an even 4.8% for the plan year. The state matches the employee contributions each payroll period at the rate of 156%. County Plan members contribute 4.5% of compensation each payroll period during the plan year. The county matches the employee contributions each payroll period at the rate of 150%. The account balance for State and County Plan members consists of accumulated contributions plus investment gains or losses.

Also effective January 1, 2007, State and County employees will be enrolled in their respective plans immediately upon hire and will vest after three years of plan participation.

Members who remained in the Defined Contribution benefit make their own investment choices for both their employee and employer funds. Members may invest their employer contributions in any of the 12 fund choices also available for their employee contributions. The managers for each fund are selected, monitored and terminated, when necessary, by the Nebraska Investment Council.

Deferred Compensation Plan

The voluntary Deferred Compensation Plan (DCP) for state employees offers the same 12 investments offered in the Defined Contribution benefit of the State and County Plans. By offering the same investment funds for both the Defined Contribution benefit and the voluntary Deferred Compensation Plan, plan participants may find it easier to implement an *integrated investment strategy.* Combining the investment options also provides a reduction in costs for DCP participants.

> **Hartford**: Effective January 1, 1997, the investment management of the State Deferred Compensation Plan assets was changed from Hartford Life Insurance Company to the Nebraska Investment Council, with different investment options. While contributions to Hartford have not been allowed since then, *participants remaining in the Hartford investment options* ***may transfer their balances*** *from Hartford to the current Deferred Compensation Plan investment options* ***at any time*** *with* ***no fee***. Members should contact NPERS with questions regarding a transfer.

Investment Fund Details

The following pages in this section provide details of the 12 investment funds offered in the Defined Contribution benefit and the Deferred Compensation Plan. A video explaining the funds is on NPERS' web site at **www.npers.ne.gov**.

MONEY MARKET FUND
As of December 31, 2005

Investment Objective: The Money Market Fund seeks to maximize current income while preserving capital and liquidity through investing in a diversified portfolio of short-term securities. The Fund's yield reflects short-term interest rates. Contributions to the Fund are invested in the State Street Short-Term Investment Fund.

Investment Style: Investments are managed conservatively by investing only in high quality short-term instruments such as U.S. government and agency obligations, commercial paper, repurchase agreements, bankers acceptances, certificates of deposit, time deposits and other fixed income investments.

Performance Thru 12/31/05:

	Fund*	3 Month US Treasury Bills
One Year	3.0%	3.0%
Three Years	1.7	1.8
Five Years	2.3	2.3

* Time-weighted rates of return, net of investment fees.

Quality Diversification:

A1+/P1	65.5%
A1/P1	34.5

Sector Weghtings:

Bankers Accept., CDs	40.0%
Repurchase Agreements	20.0
Bank & Corporate Notes	17.2
Commercial Paper	17.2
Floating Rate ABS	3.9
Other Short-Term Instruments	1.7

Characteristics:

Portfolio Assets	$42.1 B
Average Quality	A1+/P1
Average Maturity	24 Days
Current Yield	4.3%

Manager: State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

Annual Investment Fee: Approximately 0.13%

STABLE VALUE FUND
As of December 31, 2005

Investment Objective: The investment objective of the Stable Value Fund is to preserve principal value and earn a competitive yield. The Fund accommodates participant withdrawals without penalty.

Investment Style: The Stable Value Fund invests in Guaranteed Investment Contracts (GICs), Synthetic Investment Contracts (SICs), and other fixed income instruments. GICs are deposits with GIC issuers that feature repayment of deposits plus interest according to a predetermined schedule. SICs are portfolios of high quality fixed income instruments that are "wrapped" by issuers. SIC wraps are designed to accommodate qualified participant withdrawals.

Performance Thru 12/31/05:

	Fund*	Hueler Index**
One Year	4.3%	4.4%
Three Years	4.5	2.8
Five Years	5.1	2.9

* Time-weighted rates of return, net of investment fees.

** 3 Month U.S. Treasury Bills were used as the benchmark until May 2004. Since June 2004, the benchmark has been the Hueler Index. The benchmark shown is a time-weighted blend of the two benchmarks.

Composition:

SICs	73.6%
GICs	21.9
Cash Equivalents	4.5

Largest Holdings:

GICs and SICs Major Issuers	
Bank of America	18.4%
State Street	18.4
CDC	18.4
UBS	18.4
Protective Life	4.9
Monumental Life	4.6
Metropolitan Life	3.9
GE Capital Assurance	2.1
GE Life	1.6

Characteristics:

Portfolio Assets	$140.1 M
Number of GIC/SIC Issuers	12
Current Yield	4.3%

Manager: T. Rowe Price Stable Asset Management, Inc. is a subsidiary of T. Rowe Price Associates located in Baltimore, Maryland.

Annual Investment Fee: Approximately 0.14%

BOND MARKET INDEX FUND

As of December 31, 2005

Investment Objective: The Bond Market Index Fund seeks to replicate the returns and characteristics of the Lehman Brothers U.S. Aggregate Index. Contributions to the Fund are invested in the State Street Global Advisors Passive Bond Market Index Fund.

Investment Style: The Fund employs a passive bond index strategy that is invested in a diversified portfolio and is representative of the broad U.S. bond market. Since complete replication of the Index is not economically practical, a stratified sampling approach is employed to build the Fund portfolio. The portfolio's characteristics closely resemble those of the Index.

Performance Thru 12/31/05:

	Fund*	Lehman Aggregate Index
One Year	2.4%	2.4%
Three Years	3.6	3.6
Five Years	5.9	5.9

*Time-weighted rates of return, net of investment fees.

Quality Diversification:

Aaa	78.9%	Baa	7.5%
Aa	4.8		
A	8.8		

Sector Weightings:

Government	37.4%
Mortgage-Backed	34.8
Corporate Bonds	23.0
Commercial MBS	3.6
Asset Backed	1.2

Characteristics:

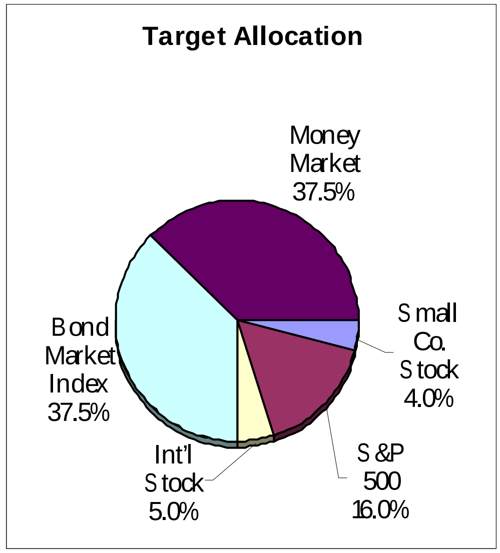
Portfolio Assets	$6.0 B
Average Quality	AA
Current Yield	5.1%
Mod. Adj. Duration	4.6
Convexity	-0.2

Manager: State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

Annual Investment Fee: Approximately 0.05%

CONSERVATIVE PREMIXED FUND
As of December 31, 2005

Investment Objective: Through a combination of 75% fixed income investments and 25% stocks, this Fund is designed to provide a diversified conservative strategy with emphasis placed on fixed income to obtain lower volatility and market risk.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans. The target allocation for this Fund is shown in the pie chart at the right.

Performance Thru 12/31/05

	Fund*	Lehman Aggregate	S&P500 Index	SSgA Money Market	Russell 2000 Stock Index	MSCI ACWI Ex-US
One Year	4.1%	2.4%	4.9%	3.0%	4.6%	16.6%
Three Years	6.3	3.6	14.4	1.7	22.1	25.7
Five Years	4.0	5.9	0.5	2.3	8.2	6.3

*Time-weighted rates of return, net of investment fees.

Target Allocation:

	Targets	Holdings
S&P 500 Stock Index Fund	16.0%	17.5%
Small Company Stock Fund	4.0	5.0
International Stock Index Fund	5.0	6.7
Bond Market Index Fund	37.5	35.6
Money Market Fund	37.5	35.2

Portfolio Analysis: Portfolio Assets $19.3 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Index Fund, Bond Market Index Fund, and Money Market Fund.

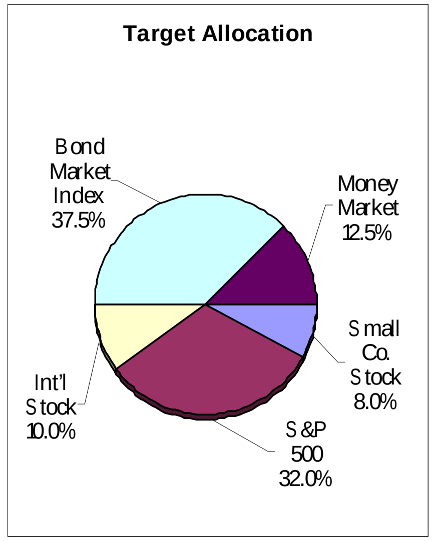
Manager: S&P 500 Stock Index Fund, Bond Market Index Fund, and Money Market Fund are managed by State Street Global Advisors, Small Company Stock Fund by Dimensional Fund Advisors, and International Stock Index Fund by Barclays Global Advisors.

Annual Investment Fee: Approximately 0.10%

MODERATE PREMIXED FUND

As of December 31, 2005

Investment Objective: Through a combination of 50% fixed income investments and 50% stocks, this Fund is designed to provide a diversified balanced strategy with investments split evenly between equities with their higher expected rates of return and volatility and fixed income investments with their lower expected rates of return and volatility.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans. The target allocation for this Fund is shown in the pie chart at the right.

Performance Thru 12/31/05:

	Fund*	Lehman Aggregate	S&P500 Index	SSgA Money Market	Russell 2000 Stock Index	MSCI ACWI Ex-US
One Year	5.0%	2.4%	4.9%	3.0%	4.6%	16.6%
Three Years	10.0	3.6	14.4	1.7	22.1	25.7
Five Years	4.1	5.9	0.5	2.3	8.2	6.3

*Time-weighted rates of return, net of investment fees.

Target Allocation:

	Targets	Holdings
S&P 500 Stock Index Fund	32.0%	32.3%
Small Company Stock Fund	8.0	8.1
International Stock Index Fund	10.0	10.5
Bond Market Index Fund	37.5	36.8
Money Market Fund	12.5	12.3

Portfolio Analysis: Portfolio Assets $465.1 M

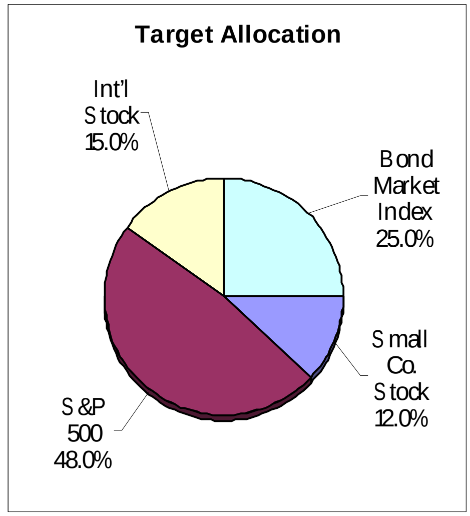
For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Index Fund, Bond Market Index Fund and Money Market Fund,

Manager: S&P 500 Stock Index Fund, Bond Market Index Fund, and Money Market Fund are managed by State Street Global Advisors, Small Company Stock Fund by Dimenional Fund Advisors, and International Stock Index Fund by Barclays Global Investors.

Annual Investment Fee: Approximately 0.09%

AGGRESSIVE PREMIXED FUND
As of December 31, 2005

Investment Objective: Through a combination of 25% fixed income investments and 75% stocks, this Fund is designed to provide a diversified aggressive strategy with the emphasis placed on equities with their higher expected returns for participants assuming greater market volatility.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans. The target allocation for this Fund is shown in the pie chart located at the right.

Performance Thru 12/31/05:

	Fund*	Lehman Aggregate	S&P 500 Index	Russell 2000 Stock Index	MSCI ACWI Ex-US
One Year	6.0%	2.4%	4.9%	4.6%	16.6%
Three Years	13.5	3.6	14.4	22.1	25.7
Five Years	3.5	5.9	0.5	8.2	6.3

*Time-weighted rates of return, net of investment fees.

Target Allocation:

	Targets	Holdings
S&P 500 Stock Index Fund	48.0%	48.3%
Small Company Stock Fund	12.0	12.1
International Stock Index Fund	15.0	15.5
Bond Market Index Fund	25.0	24.1

Portfolio Analysis: Portfolio Assets $65.7 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Index Fund and Bond Market Index Fund.

Manager: S&P 500 Stock Index Fund and Bond Market Index Fund are managed by State Street Global Advisors, Small Company Stock Fund by Dimenional Fund Advisors and International Stock Index Fund by Barclays Global Investors.

Annual Investment Fee: Approximately 0.10%

S&P 500 STOCK INDEX FUND
As of December 31, 2005

Investment Objective: The S&P 500 Stock Index Fund seeks to replicate the returns and characteristics of the S&P 500 Index. Contributions to the Fund are invested in the State Street Global Advisors Flagship Fund.

Investment Style: The S&P 500 Index is a broad index comprised of 500 common stocks representing 63 industries and over 77% of the capitalization of the U.S. equity market. Common stocks are purchased in the same weighting as they appear in the S&P 500 Index.

Performance Thru 12/31/05:

	Fund*	S&P 500 Index
One Year	5.0%	4.9%
Three Years	14.4	14.4
Five Years	0.6	0.5

*Time-weighted rates of return, net of investment fees.

Composition:

Common Stocks	98.7%
Cash Equivalents/S&P 500 Futures Contracts	1.3

Major Sectors:

Financials	21.2%
Information Technology	15.0
Health Care	13.1
Industrials	11.7
Consumer Discretionary	11.0

Largest Holdings:

General Electric	3.3%	BankAmerica	1.6
Exxon Mobil	3.1	Johnson & Johnson	1.6
Citigroup	2.2	AIG	1.6
Microsoft	2.2	Pfizer	1.5
Proctor & Gamble	1.7	Altria	1.4

Portfolio Analysis:

Portfolio Assets	$25.2 B	Price-to-Earnings	16.0x
Number of Holdings	500	Price-to-Book	2.8x
Avg. Capitalization	$87.2 B	Yield	1.8%

Manager: State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

Annual Investment Fee: Approximately 0.03%

LARGE COMPANY GROWTH STOCK INDEX FUND
As of December 31, 2005

Investment Objective: The Large Company Growth Stock Index Fund seeks to replicate the returns and characteristics of the Russell 1000 Growth Index. Contributions to the Fund are invested in the State Street Global Advisors Russell 1000 Growth Index Strategy Fund.

Investment Style: The Russell 1000 Index represents the largest 1,000 U.S. stocks based on market capitalization. These stocks can further be classified as growth or value. The Russell 1000 Growth Index is a sub-category of the Russell 1000 Index with growth characteristics. Growth characteristics consist of higher expected earnings and revenue increases as well as higher price-to-earnings ratios and price-to-book values.

Performance Thru 12/31/05:

	Fund*	Russell 1000 Growth Index
One Year	5.2%	5.3%
Three Years	13.1	13.2
Five Years	-3.6	-3.6

*Time-weighted rates of return, net of investment fees.

Composition:

Common Stocks	99.3%
Cash Equivalents/Russell 1000 Futures Contracts	0.7

Major Sectors:

Information Technology	26.5%
Health Care	19.4
Industrials	15.1
Consumer Discretionary	13.8
Consumer Staples	11.9

Largest Holdings:

General Electric	4.4%	Wal Mart	1.8%
Microsoft	3.8	IBM	1.8
Proctor & Gamble	3.1	Cisco Systems	1.7
Johnson & Johnson	2.8	Pepsico	1.6
Intel	2.4	Amgen	1.5

Portfolio Analysis:

Portfolio Assets	$259.8M	Price-to-Earnings	20.3x
Number of Holdings	623	Price-to-Book	3.2x
Avg. Capitalization	$76.8B	Yield	1.1%

Manager: State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

Annual Investment Fee: Approximately 0.05%

LARGE COMPANY VALUE STOCK INDEX FUND

As of December 31, 2005

Investment Objective: The Large Company Value Stock Index Fund seeks to replicate the returns and characteristics of the Russell 1000 Value Index. Contributions to the Fund are invested in the State Street Global Advisors Russell 1000 Value Index Strategy Fund.

Investment Style: The Russell 1000 Index represents the largest 1,000 U.S. stocks based on market capitalization. These stocks can further be classified as growth or value. The Russell 1000 Value Index is a sub-category of the Russell 1000 Index with value characteristics. Value characteristics generally consist of lower price-to-earnings ratios and lower price-to-book values for stocks currently out of favor and/or stocks with lower forecasted growth rates.

Performance: Thru 12/31/05:

	Fund*	Russell 1000 Value Index
One Year	7.2%	7.1%
Three Years	17.5	17.5
Five Years	5.3	5.3

*Time-weighted rates of return, net of investment fees.

Composition:

Common Stocks	99.3%
Cash Equivalents/Russell 1000 Futures Contracts	0.7

Major Sectors:

Financials	37.6%
Energy	13.6
Consumer Discretionary	8.1
Health Care	7.0
Industrials	6.8

Largest Holdings:

Exxon Mobil	5.8%	Chevron	2.1%
Citigroup	4.1	AIG	1.8
BankAmerica	3.0	AT&T	1.6
Pfizer	2.8	Wells Fargo	1.5
JP Morgan	2.3	Altria	1.5

Portfolio Analysis:

Portfolio Assets	$670.7M	Price-to-Earnings	13.6x
Number of Holdings	693	Price-to-Book	2.1x
Avg. Capitalization	$80.9B	Yield	2.5%

Manager: State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

Annual Investment Fee: Approximately 0.05%

SMALL COMPANY STOCK FUND
As of December 31, 2005

Investment Objective: The Small Company Stock Fund's primary objective is capital appreciation through investment in U.S. common stocks with small capitalization. Contributions to the Fund are invested in the DFA Small Company Portfolio.

Investment Style: This Fund is focused on capturing the returns and possible diversification benefits of a broad cross-section of small U.S. companies. Equities purchased approximately represent the smallest 8% of companies listed on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange.

Performance Thru 12/31/05:

	Fund*	Russell 2000 Stock Index
One Year	6.1%	4.6%
Three Years	23.7	22.1
Five Years	11.5	8.2

*Time-weighted rates of return, net of investment fees.

Composition:

Common Stocks	99.5%
Cash Equivalents	0.5

Major Sectors:

Information Technology	21.3%
Industrials	16.5
Consumer Discretionary	16.5
Health Care	14.3
Financials	13.2

Largest Holdings:

AbGenix	0.18%	Factset Research	0.17%
Anteon International	0.18	United Rentals	0.17
EGL	0.18	Integrated Device	0.16
Shaw Group	0.18	Carpenter Technology	0.16
Reliance Steel & Aluminum	0.17	Knight Transportation	0.16

Portfolio Analysis:

Portfolio Assets	$2,875 M	Price-to-Earnings	18.1x
Number of Holdings	3,031	Price-to-Book	2.2x
Avg. Capitalization	$926 M	Yield	0.7%

Manager: Dimensional Fund Advisors is located in Santa Monica, California.

Annual Investment Fee: Approximately 0.42%

INTERNATIONAL STOCK INDEX FUND
As of December 31, 2005

Investment Objective: The International Stock Index Fund seeks to replicate the returns and characteristics of the Morgan Stanley Capital International (MSCI) All Country World ex-US Index (ACWI ex-US). Contributions to the Fund are invested in the Barclays Global Investors ACWI ex-US Index Fund.

Investment Style: The MSCI ACWI ex-US represents approximately 60% of the total stock market capitalization outside of the United States and approximately 34% of the world's total stock market capitalization. In addition to long-term capital appreciation, investing in foreign markets offers the opportunity of diversification benefits.

Performance Thru 12/31/05:

	Fund*	MSCI ACWI ex-US Index
One Year	16.5%	16.6%

*Time-weighted rates of return, net of investment fees.

Country Diversification:

Europe (ex-UK)	35.5%	Americas	8.7%
UK	19.4	Africa	1.4
Japan	20.7	Middle East	0.9
Asia / Pacific (ex-Japan)	13.4		

Major Sectors:

Financials	27.8%	Information Technology	7.6
Consumer Discretionary	11.2	Consumer Staples	7.2
Energy	9.9	Health Care	6.7
Industrials	9.9	Telecommunication Services	6.2
Materials	9.1	Utilities	4.5

Largest Holdings:

British Petroleum	1.8%	Vodaphone	1.1
HSBC Holdings	1.4	Royal Dutch Petroleum	1.0
Toyota Motor Corporation	1.2	Novartis	1.0
GlaxoSmith Kline	1.2	Nestle	0.9
Total SA	1.1	Roche Holding	0.8

Portfolio Analysis:

Fund Assets	$310.9M	Price-to-Earnings	16.6x
Number of Holdings	1,481	Number of Countries	48
Avg. Capitalization	$39.9B	Emerging Markets	12.3%

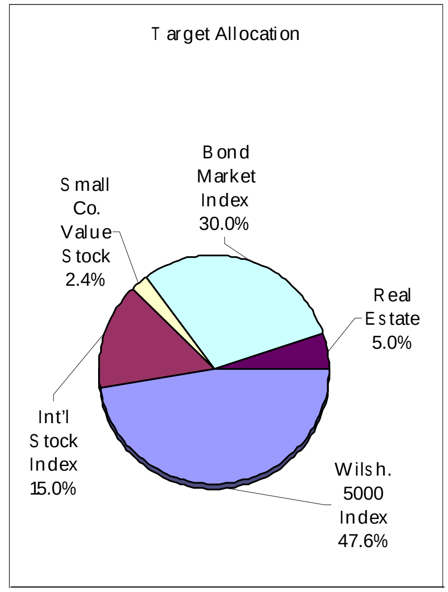
Manager: Barclays Global Investors, N.A. is located in San Francisco, California.

Annual Investment Fee: Approximately 0.15%

INVESTOR SELECT FUND

As of December 31, 2005

Investment Objective: The Fund is invested with an asset allocation and investment strategy substantially similar to the investment allocations made for the Defined Benefit Plans. Currently, the asset allocation for the Fund is 65% stocks, 30% fixed income and 5% real estate.



Investment Style: The Fund consists of a mixture of some of the other investment choices available in the Plans as well as some additional investments. The target allocation for this Fund is shown in the pie chart at the right.

Performance Thru 12/31/05:

	Fund*	Lehman Aggregate	Wilshire 5000 Index	Russell 2000 Index	MSCI ACWI Ex-US	DJ Wilshire Real Estate Securities Index
One Year	N/A%	2.4%	6.4%	4.6%	16.6%	13.9%
Three Years	N/A	3.6	16.4	22.1	25.7	28.2
Five Years	N/A	5.9	2.1	8.2	6.3	19.0

*Time-weighted rates of return, net of investment fees. Fund opened for investment in September 2005. The rate of return for 4Q 2005 was 2.0%.

Target Allocation:

	Targets	Holdings
Wilshire 5000 Index Fund	47.625%	47.6%
Small Company Value Stock Fund	2.375	2.3
International Stock Index Fund	15.0	15.5
Real Estate Fund	5.0	5.0
Bond Market Fund	30.0	29.6

Portfolio Analysis: Portfolio Assets $0.9 M

Manager: Wilshire 5000 Stock Index Fund and Bond Market Index Fund are managed by State Street Global Advisors, International Stock Index Fund by Barclays Global Investors, Small Company Value Stock Fund by Dimensional Fund Advisors and Real Estate Fund by Goldman Sachs.

Annual Investment Fee: Approximately 0.16%

Historical Investment Returns

NEBRASKA STATE AND COUNTY EMPLOYEES RETIREMENT SYSTEMS

December 31, 2005

TIME-WEIGHTED RATES OF RETURN

	MONEY MARKET FUND	STABLE VALUE FUND	BOND MARKET INDEX FUND	S & P 500 STOCK INDEX FUND	LARGE COMPANY GROWTH STOCK INDEX FUND	LARGE COMPANY VALUE STOCK INDEX FUND
Quarter	0.93%	1.04%	0.60%	2.09%	2.95%	1.27%
YTD	2.99	4.25	2.44	4.96	5.15	7.16
2004	1.18	4.40	4.34	10.90	6.35	16.50
2003	1.06	4.92	4.10	28.66	29.40	29.94
2002	1.86	5.62	10.33	-22.15	-27.84	-15.57
2001	4.34	6.15	8.39	-11.92	-20.39	-5.64
2000	6.50	6.48	11.72	-9.10	-22.33	9.36
1 Year	2.99%	4.25%	2.44%	4.96%	5.15%	7.16%
3 Year	1.74	4.52	3.64	14.42	13.14	17.50
5 Year	2.29	5.06	5.93	0.56	-3.58	5.31
10 Year	N/A	N/A	N/A	9.11	N/A	N/A

	SMALL COMPANY STOCK FUND	INTERNATIONAL STOCK INDEX FUND	CONSERVATIVE PREMIXED FUND	MODERATE PREMIXED FUND	AGGRESSIVE PREMIXED FUND	INVESTOR SELECT FUND
Quarter	1.36%	3.98%	1.25%	1.55%	1.93%	2.00
YTD	6.07	16.46	4.05	4.97	6.04	N/A
2004	17.86	20.83	5.17	8.25	10.54	N/A
2003	51.44	N/A	9.63	17.26	24.83	N/A
2002	-19.41	N/A	-0.88	-6.46	-13.39	N/A
2001	12.68	N/A	2.09	-1.83	-6.51	N/A
2000	2.45	N/A	4.04	-0.61	-4.65	N/A
1 Year	6.07%	16.46%	4.05%	4.97%	6.04%	N/A
3 Year	23.72	N/A	6.25	10.04	13.53	N/A
5 Year	11.53	N/A	3.96	4.12	3.45	N/A
10 Year	11.84	N/A	N/A	N/A	N/A	N/A

MAJOR INDICES:	S & P 500 (Large Company Stock)	Russell 2000 (Small Company Stock)	MSCI ACWI Ex-US (International Stock)	Lehman Aggregate (Bonds)	90-Day Treasury Bill	CPI (Inflation)
Quarter	2.09%	1.12%	4.35%	0.60%	0.91%	-1.01%
YTD	4.91	4.55	16.62	2.43	3.00	3.42
1 Year	4.91%	4.55%	16.62	2.43%	3.00%	3.42
3 Year	14.39	22.13	25.69	3.62	1.77	2.85
5 Year	0.54	8.22	6.27	5.87	2.22	2.49
10 Year	9.07	9.26	6.36	6.17	3.72	2.52

1. Returns are net of investment management fees.
2. The 1, 3, 5, and 10 - year rates of return are annualized rates of return of the funds through December 31, 2005.
3. Past performance is not indicative of future performance.

Rates of return are for the investment vehicle currently used. Following are the dates of NE fund participation: Stable Value Fund - 1996; Bond Market Index Fund, S & P 500 Stock Index Fund, Money Market Fund - 1997; Large Company Growth Stock Index Fund,

Cash Balance Benefit Annual Report

Cash Balance Benefit

All new State and County Plan participants are automatically invested in the Cash Balance benefit. Membership will continue to increase over time. Prior to the Cash Balance implementation in January 2003, about one-third of State and County Plan members elected to transfer their account balances in from the Defined Contribution Benefit.

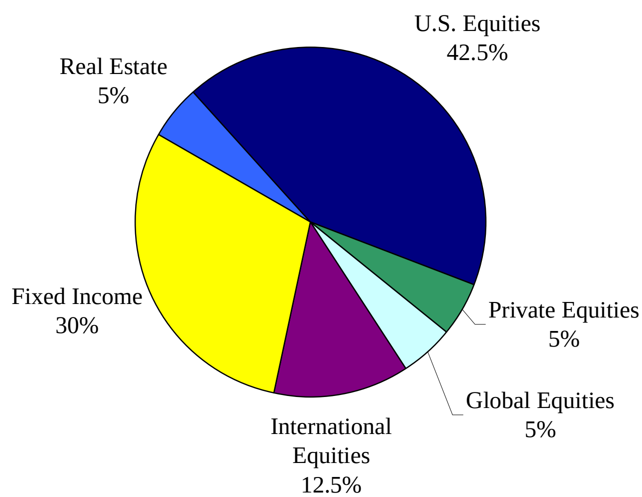
Through December 31, 2006, State Plan members contribute 4.33% of compensation each payroll period until reaching $864 in contributions ($19,954 in salary) during the plan year. Contributions on salary in excess of $19,954 during the year are made at the rate of 4.8%. *Effective January 1,* 2007, the contribution rate will be an even 4.8% for the plan year. The state matches the employee contributions each payroll period at the rate of 156%. County Plan members contribute 4.5% of compensation each payroll period during the plan year. The county matches the employee contributions each payroll period at the rate of 150%.

Also effective January 1, 2007, State and County employees will be enrolled in their respective plans immediately upon hire and will vest after three years of plan participation.

Cash Balance members do not make their own investment choices. The assets are held in a trust fund which is managed by the Nebraska Investment Council. Cash Balance participants are guaranteed an annual *interest credit rate* which is defined in statute as the greater of 5% (the "floor" rate) or the federal mid-term rate plus 1.5%. The interest credit rate is determined each calendar quarter. The account balance for State and County Plan members consists of accumulated contributions plus the interest credit rate earned each quarter.

Asset Allocation

The Nebraska Investment Council has chosen the following investment strategy for the Cash Balance Benefit. This strategy is designed to mirror the investment strategy of the defined benefit plans administered by NPERS for the School Employees, Judges and State Patrol.



Portfolio Managers

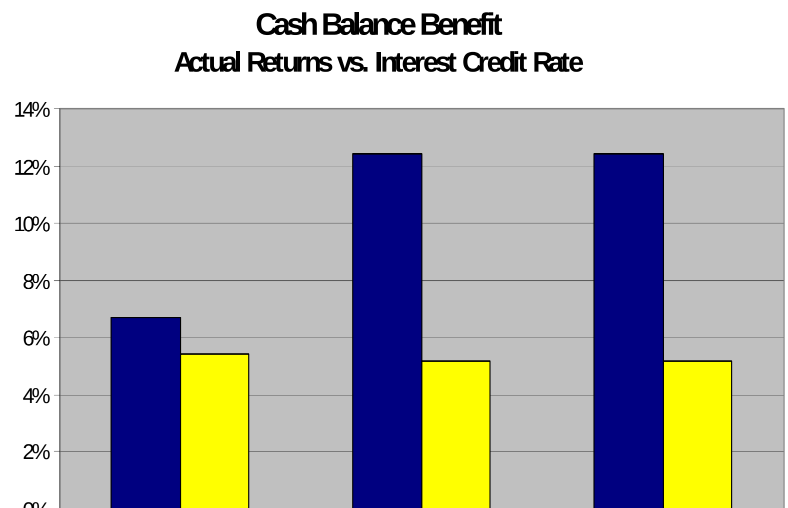
In 2005 the Nebraska Investment Council added three new asset classes and hired several new managers. Therefore, the performance of many of the managers is less than one year. The performance of all managers is monitored quarterly and they are subject to thorough reviews at least annually.

The investments for the Cash Balance Benefit option are managed by following managers. A small portion of the assets are managed internally by the Nebraska Investment Council.

U.S. Equities -- 46.6%	**Allocation %**
Alliance Bernstein L.P	4.8%
Ariel Capital Management, LLC	2.5%
Barclays Global Investments (Wilshire 5000)	31.1%
Dimensional Fund Advisors, Inc.	3.3%
Barclays Global Investments (Large Growth)	4.9%
Private Equities – .01%	
Abbott Capital Management, LLC	0.01%
Global Equities – 5.1%	
Acadian Asset Management, Inc.	2.6%
MFS Institutional Advisors, Inc.	2.5%
International Equities – 15.5%	
Barclays Global Investments (World ex-US)	8.1%
Baillie Gifford Overseas Ltd.	2.0%
Grantham, Mayo, Van Otterloo & Co., LLC	5.4%
Fixed Income – 29.7%	
BlackRock Financial Management	9.2%
PIMCO	9.2%
Barclays Global Investments (Universal Bond)	10.2%
Nebraska Investment Council	1.1%
Real Estate – 3.1%	
Heitman Real Estate Securities LLC	1.3%
Goldman Sachs Asset Management	1.8%

Performance Summary

The investments in the Cash Balance benefit returned 6.7% in calendar year 2005. This return is above the crediting rate earned by participants during the year. In 2005, participants in the Cash Balance benefit earned an average of 5.4% because the federal mid-term rate plus 1.5% was above the 5% guaranteed minimum (floor) crediting rate.



	1 Year	3 Year	Since 12/31/02
Cash Balance Benefit	6.7%	12.4%	12.4%
Interest Credit Rate	5.4%	5.2%	5.2%

When investment performance results are above the interest credit rate plus the required reserve of 10% of the assets, the Public Employees Retirement Board (PERB) has the option to issue a dividend to plan members, or the Nebraska State Legislature may pass legislation to improve plan benefits for members.

2005 Dividend

In 2005 the PERB voted to issue a dividend to participants who had an account balance on December 31, 2004. The dividend was calculated by multiplying a member's December 31, 2004 account balance by an earnings factor of 2.8%. For example, an account balance of $25,000 as of December 31, 2004, resulted in a one-time dividend of $700.

Summary of Plan Assets

NEBRASKA STATE EMPLOYEES

Defined Contribution Summary of Assets

Fund Name	Balance 1/1/2005	Deposits	Withdrawals
Stable Fund	$94,322,868.14	$3,973,186.41	($6,078,270.30)
Money Market Fund	$1,689,102.21	$195,165.05	($53,377.26)
S & P 500 Stock Index	$86,146,891.89	$5,299,230.49	($2,314,202.87)
Small Co. Stock Fund	$19,878,469.12	$1,399,210.33	($639,065.31)
International Stock Fund	$7,534,247.10	$671,052.74	($347,250.79)
Bond Market Index	$3,919,705.13	$397,399.99	($219,368.64)
Lg. Co. Growth Stock Index	$9,863,563.03	$936,085.03	($310,559.65)
Lg. Co. Value Stock Index	$12,042,102.43	$959,710.00	($524,564.69)
Conservative Premixed Fund	$15,315,062.97	$1,155,463.89	($1,078,342.40)
Aggressive Premixed Fund	$51,353,797.47	$4,385,841.76	($2,156,050.19)
Moderate Premixed Fund	$356,985,961.23	$18,339,152.37	($13,369,031.50)
Investor Select Fund	$0.00	$11,617.59	($41.55)
Total Fund	**$659,051,770.72**	**$37,723,115.65**	**($27,090,125.15)**

RETIREMENT PLAN

for 01/01/05 to 12/31/05

Net Transfers	Expenses	Net Earnings	Balance 12/31/2005
$4,903,436.92	($40,195.28)	$3,831,985.08	$100,913,010.97
$252,993.76	($1,378.73)	$55,620.22	$2,138,125.25
($1,743,490.49)	($31,591.70)	$4,216,737.98	$91,573,575.30
$2,027,940.79	($8,434.08)	$1,603,256.64	$24,261,377.49
$3,983,421.59	($10,309.61)	$1,348,272.65	$13,179,433.68
$690,276.88	($2,208.64)	$103,982.70	$4,889,787.42
$737,608.90	($4,486.65)	$552,614.70	$11,774,825.36
$3,515,024.90	($4,743.68)	$1,016,303.33	$17,003,832.29
($1,094,808.74)	($554,781.00)	$574,459.89	$14,317,054.61
($4,202,596.18)	($25,351.85)	$2,971,857.26	$52,327,498.27
($14,152,060.23)	($133,607.76)	$17,009,462.36	$364,679,876.47
$652,418.18	($33.83)	$14,533.76	$678,494.15
($4,429,833.72)	**($817,122.81)**	**$33,299,086.57**	**$697,736,891.26**

NEBRASKA COUNTY EMPLOYEES

Defined Contribution Summary of Assets

Fund Name	Balance 1/1/2005	Deposits	Withdrawals
Stable Fund	$22,192,828.90	$1,267,711.60	($1,602,669.27)
Money Market Fund	$536,339.88	$85,780.54	($118,010.90)
S & P 500 Stock Index	$20,495,679.31	$1,489,622.68	($691,663.13)
Small Co. Stock Fund	$3,106,641.15	$320,680.62	($89,533.84)
International Stock Fund	$1,192,813.02	$153,170.93	($42,200.23)
Bond Market Index	$750,500.20	$103,765.28	($26,297.93)
Lg. Co. Growth Stock Index	$1,700,353.40	$229,908.23	($44,590.68)
Lg. Co. Value Stock Index	$1,627,788.05	$184,415.00	($56,075.19)
Conservative Premixed Fund	$4,005,667.05	$508,112.02	($281,394.52)
Aggressive Premixed Fund	$9,594,303.45	$1,173,790.80	($343,735.75)
Moderate Premixed Fund	$89,445,577.60	$5,604,187.05	($4,384,724.50)
Investor Select Fund	$0.00	$2,448.52	$0.00
Total Fund	**$154,648,492.01**	**$11,123,593.27**	**($7,680,895.94)**

RETIREMENT PLAN

for 01/01/05 to 12/31/05

Net Transfers	Expenses	Net Earnings	Balance 12/31/2005
$337,584.37	($32,976.82)	$881,573.34	$23,044,052.12
$25,668.72	($1,293.32)	$15,249.04	$543,733.96
($469,161.37)	($28,989.24)	$1,013,000.57	$21,808,488.82
$286,945.91	($5,484.31)	$259,524.08	$3,878,773.61
$531,224.75	($2,578.76)	$235,663.56	$2,068,093.27
$62,535.12	($1,591.61)	$20,551.49	$909,462.55
$104,706.66	($3,032.48)	$105,632.20	$2,092,977.33
$370,543.13	($2,949.54)	$132,914.09	$2,256,635.54
($229,671.92)	($23,456.10)	$154,261.34	$4,133,517.87
($334,930.83)	($16,654.77)	$589,275.62	$10,662,048.52
($1,918,594.26)	($125,683.15)	$4,297,410.98	$92,918,173.72
$124,222.97	($33.22)	$2,639.43	$129,277.70
($1,108,926.75)	**($244,723.32)**	**$7,707,695.74**	**$164,445,235.01**

STATE OF NEBRASKA EMPLOYEES

Cash Balance Summary of Assets for

Fund Name	Balance 1/1/2005	Deposits	Withdrawals
Cash Balance Fund	$265,276,033.57	$24,377,228.99	($22,341,027.00)
Total Fund	**$265,276,033.57**	**$24,377,228.99**	**($22,341,027.00)**

NEBRASKA COUNTY EMPLOYEES

Cash Balance Summary of Assets for

Fund Name	Balance 1/1/2005	Deposits	Withdrawals
Cash Balance Fund	$74,599,635.55	$9,199,281.24	($4,969,077.25)
Total Fund	**$74,599,635.55**	**$9,199,281.24**	**($4,969,077.25)**

RETIREMENT PLAN

01/01/05 to 12/31/05

Net Transfers	Expenses	Net Earnings	Balance 12/31/2005
$4,429,833.72	($806,653.97)	$21,541,900.66	$292,477,315.97
$4,429,833.72	**($806,653.97)**	**$21,541,900.66**	**$292,477,315.97**

RETIREMENT PLAN

01/01/05 to 12/31/05

Net Transfers	Expenses	Net Earnings	Balance 12/31/2005
$1,108,926.75	($287,014.48)	$6,211,129.56	$85,862,881.37
$1,108,926.75	**($287,014.48)**	**$6,211,129.56**	**$85,862,881.37**

Summary of Assets

Fund Name	Balance 1/1/2005	Deposits	Withdrawals
Stable Fund	$15,013,665.36	$1,610,249.98	($1,838,922.64)
Money Market Fund	$1,195,958.08	$145,676.47	($137,385.63)
S & P 500 Stock Index	$25,302,735.77	$2,252,439.19	($899,914.86)
Small Co. Stock Fund	$7,961,307.89	$1,122,990.90	($335,957.81)
International Stock Fund	$5,412,014.09	$583,606.75	($212,994.71)
Bond Market Index	$2,705,051.95	$363,770.23	($171,895.07)
Lg. Co. Growth Stock Index	$3,900,823.85	$488,219.26	($103,446.20)
Lg. Co. Value Stock Index	$4,750,744.68	$657,184.24	($304,106.81)
Conservative Premixed Fund	$615,238.25	$218,416.27	($72,629.98)
Aggressive Premixed Fund	$2,267,273.91	$447,168.65	($32,365.29)
Moderate Premixed Fund	$7,813,892.44	$752,419.51	($730,855.59)
Investor Select Fund	$0.00	$10,578.38	$0.00
Total Fund	**$76,938,706.27**	**$8,652,719.83**	**($4,840,474.59)**

COMPENSATION PLAN

for 01/01/05 to 12/31/05

Net Transfers	Expenses	Net Earnings	Balance 12/31/2005
$1,066,155.63	($19,971.14)	$615,801.61	$16,446,978.80
$306,899.86	($2,102.03)	$42,045.32	$1,551,092.07
($1,298,999.97)	($37,957.12)	$1,248,235.33	$26,566,538.34
($489,009.78)	($11,743.57)	$598,733.58	$8,846,321.21
$444,586.51	($8,701.74)	$872,856.98	$7,091,367.88
$147,006.67	($4,302.29)	$62,629.58	$3,102,261.07
($648,003.27)	($5,323.65)	$164,585.12	$3,796,855.11
$315,562.54	($7,113.76)	$379,715.21	$5,791,986.10
$113,705.35	($1,400.50)	$27,988.52	$901,317.91
$11,676.51	($4,662.01)	$152,404.12	$2,841,495.89
($75,980.20)	($11,580.78)	$376,992.50	$8,124,887.88
$106,400.15	($73.16)	$349.55	$117,254.92
($0.00)	**($114,931.75)**	**$4,542,337.42**	**$85,178,357.18**

GLOSSARY

GLOSSARY

Aggressive – An investment strategy characterized by a willingness to accept above-average risk in pursuit of above-average returns. Usually favors stocks over bonds, especially stocks of rapidly growing companies.

Asset – Any item of economic value. Examples are cash, stocks, bonds, U.S. Treasury notes, accounts receivable, inventory, office equipment, a house, a car, and other property.

Asset Allocation – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's specific situation and goals. Often more conservative investments (less volatity - lower returns) to balance more aggressive investments (more volatility - more returns.)

Balanced Fund – A mutual fund that buys a combination of common stocks, preferred stocks, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk.

Bankers Acceptances - A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. These may often offer a higher rate of return.

Bear Market – A prolonged period of falling prices, usually by 20% or more, accompanied by widespread pessimism.

Benchmark – A standard, a reference point used for comparison. For example, many stock funds are compared to the performance of the S & P 500. Bond funds are compared to a bond index.

Book Value – A company's common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill. Also, the value of an asset as it appears on a balance sheet, equal to cost minus accumulated depreciation. Book value often differs substantially from market price, especially in knowledge industries such as high-tech.

Bull Market – A prolonged period of rising prices, usually by 20% or more accompanied by wide spread optimism.

Bonds - A debt security issued for a period of more than one year with the purpose of raising money by borrowing. The Federal government, states, cities, corporations, and many other types of institutions sell bonds to raise money. A bond is a promise to repay the principal along with interest on a specified date (maturity).

Capital – Combination of liquid and fixed assets available to operate a business.

Cash Equivalents – Highly liquid, very safe investments which can be easily converted into cash, such as Treasury Bills and money market funds.

Certificates of Deposit (CD) – Short or medium term, interest-bearing, FDIC-insured investments offered by banks, savings and loans, and can be purchased through a brokerage firm. CDs offer higher rates of return than most liquid investments, in exchange for tying up invested money for the duration of the certificate's maturity. Money removed before maturity is subject to a penalty. CDs are low risk, low return investments, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from three months to six years.

Commercial Paper – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 50 days.

Corporate Bonds – A bond issued by a corporation; a corporation borrowing money with the promise to pay back typically at a higher interest rate.

Diversified – An investment is said to be "diversified" if it owns a number of different investments or asset classes, in order to spread risk.

Dollar Cost Averaging – An investment strategy designed to reduce volatility in which securities, typically mutual funds, are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving.

Equities – Same as stock; indicates ownership, i.e. equity in your home – or equity shares (stock) in a company.

Fixed Income – A security that pays a specific interest rate, such as a bond, money market instrument, or preferred stock.

Growth Stock – Stock of a company which is growing earnings and/or revenue faster than its industry or the overall market. Such companies usually pay little or no dividends, preferring to use the income instead to finance further expansion.

Guaranteed Investment Contracts (GIC) – Debt instrument issued by an insurance company, usually in a large denomination, and often bought for retirement plans. The interest rate paid is guaranteed, but the principal is not.

IRA – An Individual Retirement Account that permits individuals to set aside up to $3,000 per year, with earnings tax-deferred until withdrawals begin at age 59½ (earlier with a 10% penalty) or later. Individuals who are at age 50 or older can set aside up to $3,500 a year. Only those who do not participate in a pension plan at work or who do participate and meet certain income guidelines can make deductible contributions to an IRA. All others can make contributions to an IRA on a non-deductible basis. Annual distributions must start at age 70½.

Inflation – The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index.

Liquidity – The ability of an investment asset to be converted into cash quickly.

Market Risk – Risk which is common to an entire class of assets. Risk that cannot be eliminated by diversification.

Passive Bond – Bond which is issued at less than full face value, pays no interest until maturity, but at maturity is redeemed at its full face value, such as Series E Bonds or Zero Coupon Bonds.

Performance – The results of activities of an organization or investment over a given period of time.

Portfolio – A collection of investments all owned by the same individual or organization.

Preferred Stock – Capital stock which provides a specific fixed dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of liquidation.

Preservation of Capital – A conservative investment strategy characterized by a desire to avoid risk of loss of municipal. Does not protect against purchasing power loss.

Price to Earnings Ratio – The most common measure of how expensive a stock is. Equivalently, the cost an investor must pay in a given stock per dollar of current annual earnings. For example, a stock selling at $12 a share that has earnings of $1 per share will have a price to earnings ratio (P/E) of 12 times earnings. Another way to look at it is, you are paying $12 to receive $1 of expected earnings.

Purchasing Power – The value of money, as measured by the quantity and quality of products and services it can buy, frequently related as the Consumer Price Index (CPI).

Repurchase Agreements – A contract in which the seller of debt securities, usually Treasury Bills, agrees to buy them back at a specified time and price.

Risk Tolerance – An investor's ability to handle declines in the value of his/her portfolio while waiting for them to increase.

Roth IRA – A new type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers to save for retirement while allowing the savings to grow tax-free but withdrawals, subject to certain rules, are not taxed at all. Contributions are made after tax. Withdrawals of principal and earnings are tax free. Maximum annual contributions are $3,000 per year and phasing up to $4,000 per year in 2005 and $5,000 in 2008.

Security – An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt (borrowing) or equity (ownership).

Short-term – Usually one year or less.

Stability – Absence of volatility; usually desirable, compared to the market as a whole.

Synthetic Investment Contract – A variety of stable value products which substitute for GICs in defined contribution plans and offer book value participant withdrawals. The contract includes an asset ownership component and some form of book value "wrap," maintaining participant accounts at book value. The assets backing the contract, usually high-grade securities, are owned by the plan and held in a trust account or custody account for the plan. The plan sponsor relies on the credit of the wrap issuer to support the book value guarantee.

Tax Deferred – Income whose taxes and earnings can be postponed until a later date. Examples include IRAs, 401(k)s, Keogh Plans, annuities and Savings Bonds.

Time Deposits – Savings account or CD held in a financial institution, usually a bank, for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

Under Performance – An investment whose return has trailed that of other similar investments as measured by a benchmark.

Value Stock – A stock that may represent an older company, with steadier growth of earning. Often these companies do not need to reinvest all of the earnings back into the company so they pay the shareholders a cash dividend. Value stocks typically sell at lower prices in relation to their earnings than do growth stocks.

Volatility – The relative rate at which the price of a security moves up and down.

Wrap Contract – A contract that guarantees principal and accumulated interest, payment of an interest rate for a specified period of time, and participant-initiated withdrawals and transfers at face value. In synthetic GICs, the selection of the wrap provider is generally made separately from the selection of the investment management services for the underlying assets.

Yield – The annual rate of return on an investment, expressed as a percentage. For bonds and notes, it is the amount paid divided by the market price. For securities, it is the annual dividends divided by the purchase price. Example:

Annual Dividend	\$ 1.00
Price of Stock	÷ \$12.00
Yields	1.2%

Another example of yield is the interest on a bank certificate of deposit. If you deposit \$1,000 and one year later your C.D. is worth \$1,200, your yield or rate of return was 2%.